Testimony of Robert S. Weil, II

on behalf of the National Cotton Council of America

before the House Subcommittee on Specialty Crops and Foreign Agriculture Programs

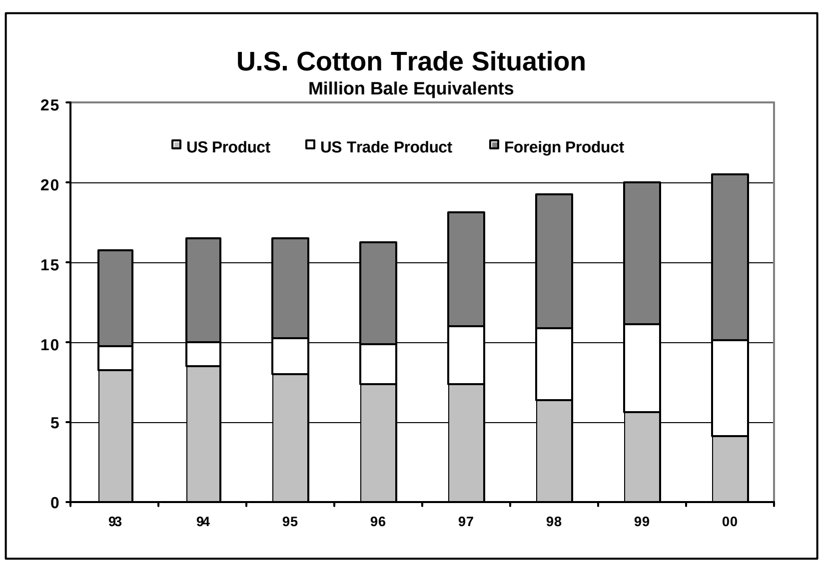
Mr. Chairman, thank you for having this hearing today. My name is Bobby Weil. I am the Chief Executive Officer of Weil Bros. Company in Montgomery, Alabama, and currently serve as the Chairman of the International Trade Policy Committee of the National Cotton Council of America. I have been in the cotton merchandising business for over 25 years. My family has been merchandising and exporting U.S. cotton for nearly 125 years. Over half of my company's business involves international trade.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and homefurnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Trade is very important to the U.S. cotton industry, with about 40% of our approximately 17 million bale (480-lb) crops exported each year. In addition, we exported the equivalent of 5 million bales of cotton in the form of textile and apparel products in 2000. Without these markets, our industry would be significantly reduced.

Mr. Chairman, the U.S. cotton industry is facing the stiffest international and domestic competition I can remember. This competition is reflected in some fairly stunning forecasts for 2001. Domestic mill use of cotton is expected to fall as much as 3 million bales below its 1997 level – a drop of over 25 percent. The anticipated U.S. crop of cotton is expected to be similar to the past two years, or larger – meaning we will have to find a home in



foreign markets for an additional 2 to 3 million bales of cotton – or see our carryover levels soar.

We will need to export over 50% of the 2001 crop to prevent our industry from slipping even further into serious economic depression.

In order to meet this challenge, we need the government to work in a partnership with agriculture to enhance our competitiveness and help secure markets against sometimes unfair competition. I am here today to state frankly that there are many signs this partnership is unraveling.

The upcoming farm bill provides this Committee the opportunity to reassert itself and fill an ever widening void being created as the U.S. government appears to retreat in the face of international competition and the self-serving demands of our competitors.

Congress has provided many tools to assist agricultural exports. However, the viability of these programs is being threatened and their potential is not being fully realized.

- The Foreign Market Development program has seen its funding fail to keep pace with inflation, and then decline;
- The Market Access Program has had no increases in funding, despite its clear positive impact and its categorization as a green box trade activity in the World Trade Organization. In nominal terms, support under MAP has fallen by 55 percent since 1992. In real terms, it has fallen even more;
- The most cost-effective export program of all, the export credit guarantee program, has been offered up by our trade negotiators in return for no significant concessions by any of our competitors;
- Our insistence on real cuts in tariff levels – cuts that begin from applied tariffs – has been ridiculed within the World Trade Organization;
- The export enhancement program, in which cotton has never participated, has been left dormant in the face of decreasing wheat exports; and
- The Administration has chosen to classify supplemental market loss assistance payments -- an obviously green box domestic agricultural program -- as subject to WTO limits. This further hampers our efforts to secure meaningful, effective long term domestic agricultural policy.

The National Cotton Council's recommendations point to an aggressive trade policy agenda that can help live up to the promise of free trade that has been marketed so profoundly the past ten years.

Cotton's Competition

Our industry is facing the stiffest international and domestic competition I can remember. Five countries, China, the United States, India, Pakistan and the former Soviet Republics produce about 70 percent of the world's cotton. China, India, Pakistan and many developing countries are unalterably committed to textile production and are, through one mechanism or another, subsidizing either their production or manufacturing industries – or both.

One of the most significant influences on the U.S. cotton market is cotton textile imports. The National Cotton Council estimates that domestic consumption of cotton textiles was about 21 million bale equivalents in 2000. This is the single largest retail market for cotton textiles and apparel in the world. Unfortunately, an increasing proportion of our market is sourced by imported products. Gross imports of cotton textiles and apparel amounted to 15.7 million bale equivalents. One-half of the U.S. cotton textile retail market is taken by completely foreign sourced products, and the share is rising.

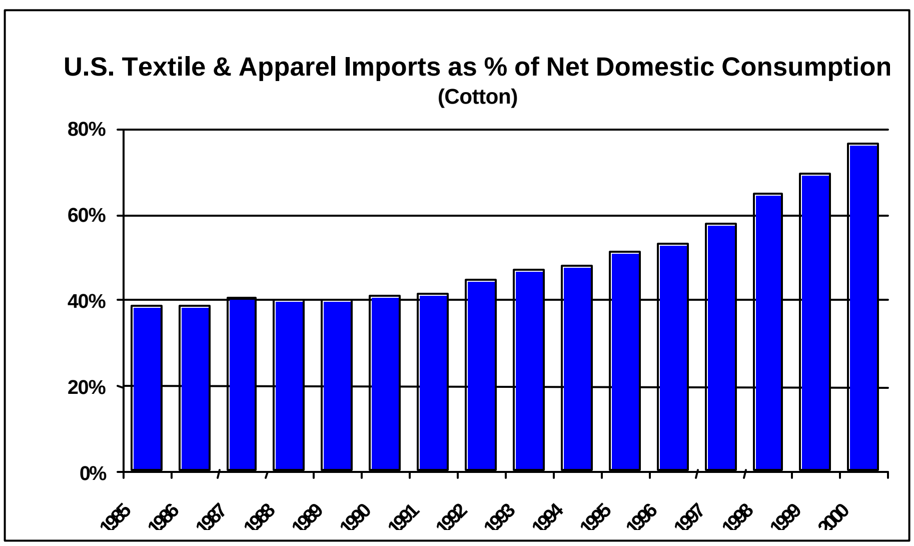
I have attached to my testimony a document prepared by the National Cotton Council entitled "An Industry in Crisis" that details the bleak economic conditions in the U.S. textile industry. The first sentence of that paper flatly states that the U.S. textile industry is vanishing from the economic landscape of the United States. The most surprising fact in this sad story is that recent productivity gains in the U.S. textile industry have been surpassed only by the U.S. electronics and computer industries – yet the bankruptcies are accelerating.

Impact of Exchange Rates

We have seen the adverse impact of strong exchange rates during the past year. Exchange rates affect each commodity differently, depending on such factors as the percentage of their production typically moving into the export market and the countries with which they compete in the export market, but they are unquestionably a major factor affecting trade in cotton and cotton textiles.

A strengthening dollar raises the effective price of U.S. commodities in local currencies. According to USDA-ERS, the U.S. real cotton trade-weighted exchange rate has appreciated by 28.7% since 1995. Furthermore, the U.S. dollar has appreciated by almost 34% relative to the currencies of our primary competitors in the export market, placing U.S. cotton producers at a severe competitive disadvantage.

Exchange rate movements are particularly important for commodities in which exports account for a significant portion of production, such as cotton. From 1986 to 1995, the U.S. exported an average of 7 million bales of fiber annually, accounting for approximately 47% of its annual production. It should be noted that the dollar was steadily depreciating over this period. Since 1996, however, U.S. raw cotton exports have averaged less than 6.5 million bales, accounting for only 37% of its annual production, as the strong dollar has impeded the competitiveness of U.S. raw cotton in international markets. Without the presence of U.S. cotton's Step 2 program to offset some of the impact of a strong dollar, U.S. raw cotton exports would likely



have experienced a far larger decline.

The greatest damage to the U.S. cotton industry from the strong dollar comes from surging imports of cotton textile and apparel products that have decimated the U.S. cotton textile industry. The current annual rate of U.S. mill use of cotton is down by 3 million bales from its level in 1997.

Compared to other agricultural products, the U.S. cotton industry is uniquely vulnerable to the effects of an appreciating dollar through its impact on imports of cotton textile and apparel products. The strong appreciation of the dollar has significantly lowered the price of foreign produced textiles and apparel in the U.S. market, increasing the competitive advantage of foreign textile firms at the expense of U.S. spinning mills and textile enterprises.

For example, at current prices and exchange rates the FOB price of Pakistani yarn in U.S. dollars is approximately 87.5 cents/lb. In 1995, this same Pakistani yarn would have cost about $1.42/lb. Appreciation of the dollar relative to the Pakistani Rupee has lowered the effective price of Pakistani yarn in the U.S. market by over 60%. Not surprisingly, imports of cotton yarn and textile products from Pakistan had almost doubled by 2000 to about 1.24 million bale equivalents. Likewise, imports of cotton textile and apparel products from all sources have soared over the past few years. In 1997, the United States was importing the equivalent of 10.5 million bales of cotton textiles and apparel; by 2000, imports had grown to 15.7 million bale equivalents.

The U.S. cotton industry faces competition for export markets and stiff competition in our domestic market from imported products. We need trade policy that ensures our raw product is competitive, that opens markets for both raw cotton and U.S. produced cotton textiles, and that ensures the terms of competition are fair.

The Council's trade policy priorities include:

- Maintaining cotton's competitiveness provisions included in U.S. farm law and continuing farm policy that enables the industry to produce a competitively priced product;
- Maintaining and strengthening effective export assistance programs;
- Effective implementation of existing regional trade arrangements to enhance the overall competitiveness of the U.S. textile sector;
- Working to monitor China's compliance with our WTO agreement;
- Ensuring that regional trade arrangements currently being negotiated are favorable to U.S. cotton and cotton textiles; and
- Working for a new agreement in the World Trade Organization that improves the competitive position of the U.S. cotton and textile industries.

I will briefly discuss each of these priorities in turn.

A. Competitiveness Provisions

Cotton's marketing loan and three-step competitiveness provisions continue to form the cornerstone of an effective U.S. cotton program. Maintaining all aspects of this program is central to the long-term competitiveness of our industry.

In addition, we support certain adjustments in this program in order to help the cotton industry cope with the adverse effects of the strong dollar. In particular, we support the elimination of the 1.25 cent threshold contained in cotton's competitiveness provisions. We also support farm law provisions to compensate for an increasingly strong U.S. dollar.

B. Effective Export Assistance Programs

In order to maintain our competitiveness, it is important that we have strong export assistance programs in place.

Export Credit Guarantee Program

Mr. Chairman, the export credit guarantee program has been a mainstay of U.S. agricultural export assistance activities for almost 20 years. Over $5.5 billion in agricultural exports have benefited from GSM-102 the past 2 years alone. The viability of this program is threatened by the ongoing negotiations within the Organization for Economic Cooperation and Development.

The latest proposals being considered within the OECD contain fee increases, shortened loan terms and repayment requirements that would make the program ineffective for U.S. exports of cotton. The National Cotton Council has estimated that an ineffective GSM 102 program could reduce annual U.S. cotton exports around 500,000 bales and have as much as a 3-cent per pound impact on U.S. cotton prices.

Mr. Chairman, as I indicated earlier, the U.S. cotton industry must find ways to increase cotton exports substantially in the 2001 marketing year. We cannot afford the loss of 500,000 bales in exports.

Officials of the Foreign Agricultural Service have been diligent in consulting with us during these negotiations. However, they have not provided any estimate as to the actual fee increases expected under the latest proposal; nor have they provided any economic analysis as to the impact of these changes on the GSM-102 program or on U.S. agricultural exports.

Without a doubt, the OECD negotiations are targeted at the United States. But comparing the GSM program to the export subsidy expenditures carried out by the European Union is inappropriate. They are not even in the same ballpark.

As currently structured, the OECD proposal undermines a central export program of the United States while providing no corresponding reductions in subsidy programs operated by our competitors. This result would place the United States at a disadvantage entering another round of multilateral agricultural trade negotiations.

Instead of moving to cripple this important program, we should be attempting to improve its effectiveness. The cotton industry supports changes to this program that can begin to address differences in currency valuations, that will allow repayment in local currencies, and that will include freight and other shipping charges in the total amount guaranteed. In addition, we have also communicated our concerns with some paperwork requirements associated with operation of the program into Mexico.

We have recommended that the Department carry out a pilot program under which the repayment of credit is guaranteed based upon documentation other than letters of credit, and we have suggested that the amount of loan guaranteed under the supplier credit program be increased to 85% to make that program more usable by companies trying to export U.S. agricultural products.

Finally, Mr. Chairman, given the uncertainty surrounding the export credit guarantee program because of the OECD negotiations, we urge the Department to announce the terms of the 2002 program right away. Concern over whether there may or may not be an OECD agreement is discouraging new crop sales. We need every competitive edge possible to export cotton for 2002.

Foreign Market Development and Market Access Program

The export promotion partnership between the U.S. Government and the U.S. cotton industry is an investment that generates a positive return to both the U.S. cotton industry and the U.S. economy.

The Foreign Market Development (FMD) and Market Access Program (MAP) are consistent with World Trade Organization (WTO) and are classified as “green box” activities. Such investment of public funds is especially prudent in light of more aggressive export competitor activities and a goal of long-term viability for U.S. agriculture in the global market.

The Council supports market promotion activities carried out under the Market Access Program and the Foreign Market Development Program. It should be noted that funding under the FMD and the MAP programs has not kept pace in recent years. Both FMD and MAP funding has declined sharply in nominal and real terms compared with the previous farm bill. We encourage the Committee to provide funding for the FMD program of $43.25 million per year and to restore overall support for the MAP program to its 1992 level of $200 million.

In addition to the above funding levels, current legislation concerning these programs should be revised to 1) clarify and broaden the Secretary’s authority to evaluate the overall effectiveness of the MAP program, as well as provide additional flexibility to the Secretary; 2) give the Secretary the discretion to supplement MAP or FMD funding with unobligated EEP funds; and 3) ensure a consistent and predictable funding level for the FMD program by formally authorizing FMD funds to be provided by the Commodity Credit Corporation.

The combined investment of private and public funds, coupled with industry marketing expertise through the FAS “Cooperator” program, results in innovative, forward-looking programs that leverage money into high-dollar impact campaigns and promotional efforts. Public funding is “seed capital” that attracts substantial private investments from a large and highly diverse industry to focus on a common national good – profitable exports of quality U.S. raw cotton and manufactured cotton products.

The cotton industry carries out many of its export promotion programs through Cotton Council International ("CCI"). CCI builds international markets for U.S. cotton and cotton products with guidance from industry and government policies, and with funding support from industry trade groups, private companies, promotion partners and the public sector through USDA.

Despite consolidations and globalization, the cotton trading and manufacturing segments of the U.S. industry are comprised of small and medium-sized business enterprises that operate on razor-thin margins. Only a few companies could individually afford to effectively replicate the services of CCI. Consequently, CCI has broad organizational and financial support from the industry to develop centralized strategies that benefit all cotton producers, exporters and manufacturers, regardless of their size.

CCI's COTTON USA Advantage program is a simple, yet effective, "Supply-Push/Demand-Pull" strategy that instills a preference for products containing U.S. cotton at virtually every point along cotton's value chain, from the initial mill buyer to the final consumer. The strategy creates incentives for textile mills and manufacturers to choose U.S. cotton over man-made fibers and over cotton from other sources.

"Supply-Push" activities are funded by U.S. industry matching contributions and USDA's FMD Cooperator program. Supply-Push activities bring buyers and sellers together during Special Trade Missions to the U.S.; Executive Delegations to targeted countries; COTTON USA Orientation Tours; Workshops; Conferences; Summits; and leading international trade shows.

The "Demand-Pull" activities concentrate on increasing demand for U.S. cotton and cotton products among textile and apparel manufacturers, retailers and consumers to "pull" additional U.S. product through the value chain and marketing system.

This component of CCI's strategy uses the COTTON USA Mark licensing and promotion program to identify U.S. cotton within qualified products from processing through to final consumer. The licensing program is an incentive for textile mills and manufacturers to choose U.S. cotton over cotton from other sources.

Demand-Pull activities, which are funded by the MAP, industry and promotion partner contributions, aim to create a preference for products made from U.S. cotton. This consumer preference is communicated to manufacturers and retailers. Those manufacturers and retailers who commit to use significant amounts of U.S. cotton, are provided the opportunity to participate in CCI's COTTON USA consumer advertising and retail promotion program.

Examples of "Demand-Pull" activities include trade and consumer advertising campaigns that promote the advantages of U.S. cotton and cotton products, and demand-building retail promotions that increase sales of COTTON USA Mark-labeled products that contain a majority of U.S.-grown cotton.

Because it is difficult to differentiate growths of cotton, CCI created a marketing trademark to identify products made from U.S. cotton through all stages of processing and marketing. Since its launch in 1989, CCI has successfully used the COTTON USA Mark licensing and promotion program as a way to reward loyal buyers of U.S. cotton and cotton products and as a way to attract new buyers.

For CCI programs to be effective, resources must be used as efficiently as possible. CCI uses public funding, administered by USDA, to leverage larger contributions from the U.S. cotton industry and strategic promotion partners.

The U.S. cotton industry's commitment to the COTTON USA program has allowed CCI to continue to increase the percentage of industry funds allocated to international market development.

At a time when U.S. agriculture, and the cotton sector, is reeling from depressed prices and economic consolidation, CCI has pledged a record 145 percent matching industry funds for MAP in the 2001 Unified Export Strategy plan year. CCI continues to be one of the leading cooperators in this area.

CCI conservatively estimates that the Mark Licensing Program resulted in the consumption of 200,000 additional bales of U.S. cotton in program countries during 1999 than would have occurred if U.S. cotton were used at a rate similar to the country average. This means that at least an additional $65 million of U.S. cotton moved into the market due to the COTTON USA Mark Licensing program.

Export revenue from shipments of U.S. cotton and cotton products is a global measure of success, but payoff for the COTTON USA program comes one sale at a time. CCI monitors retail sales to determine program results.

In 2000, consumers in Asia, Europe and Latin America purchased $142 million of U.S. cotton-rich products labeled with the COTTON USA Mark. That represents a 153 percent increase over the previous year's levels. A few examples include:

- CCI's COTTON USA - Closed Lucky Draw promotion in Japan increased sales of U.S. cotton-rich products by 12 percent to $42 million.
- The COTTON USA - Caress Pure Cotton sales promotion in Taiwan increased sales by 12 percent to $36 million over previous year's level.
- CCI's promotion with Betten Rid, one of Germany's leading home furnishings retailers, generated $700,000. The promotion featured U.S. made Royal Velvet towels identified during a Special Trade Mission to the U.S. The promotion was made possible by the export sales that resulted from the Mission, and as a result of sales negotiations that occurred at the U.S. Cotton Pavilion at Heimtextil, the world's leading home furnishings trade show.
- Thai licensee Blue Corner International's experience provides an excellent example of the Mark's power. Blue Corner reports 18 percent sales increase for the first three-quarters of 2000. Blue Corner's managing director maintains that competitors' revenues come from 50 percent full retail and 50 percent discount-priced sales, whereas, in the midst of a weak retail environment, Blue Corner has been able to sell COTTON USA Mark-labeled merchandise at full price or with minimal price-off promotions. In 1999, Blue Corner's sales volume was 150 million Baht, ($3.4 million), 90 percent of which comes from the sale of 217,763 COTTON USA Mark-labeled products. Blue Corner spent 2.6 million Baht ($60,000) on advertising, brand-building and promotions with the COTTON USA Mark over the period.

The centerpiece of CCI's value-added efforts in 2000 was the launch of the new Sourcing CBI Program. A fully integrated marketing plan supports U.S. cotton textile mills in the development of sales contacts in Central America and the Caribbean.

Nine U.S. companies, plus the American Yarn Spinners Association, became project partners and, along with Cotton Incorporated, financially support the effort. This support enabled CCI to secure additional funding from USDA.

The first trade event program was the COTTON USA Seminar and Sourcing CBI Trade Fair in Costa Rica. Participating U.S. mills met with 24 knitting and apparel manufacturing companies from the Dominican Republic, El Salvador, Honduras and Costa Rica. The U.S. participants reported 138 new business contacts. Twenty sample orders were placed.

The second event was the COTTON USA Pavilion at the Guatemala Apparel Sourcing Show. U.S. mills reported 107 new business contacts. Future business from contacts made at the show is estimated to reach 1.5 million pounds of yarn.

Building on the momentum achieved in Costa Rica and Guatemala, CCI organized a series of one-day meetings with knitters and apparel manufacturers in Central America. The seminars and trade fairs, which coincided with the implementation of the CBI bill, were held in Guatemala, El Salvador and the Dominican Republic. A total of 58 Central American companies, including buyers from Haiti, participated in the meetings. U.S. mills reported sales and sample orders during the week. Other CBI-directed activities included trade advertising, the roll out of a regional web site, a Sourcing CBI Summit in Miami, an U.S. cotton yarn buyer's guide and a direct mail campaign. All activities highlighted the U.S. mills that participated in the project.

The export promotion partnership between the U.S. Government and the U.S. cotton industry is an investment that generates a positive return to the broad U.S. cotton industry and the U.S. economy. FMD and MAP provide public seed money for long-term agricultural export market development through WTO-compliant programs effectively leveraged and carried out by the private sector.

C. CBI Implementation

Last year the cotton industry stressed the importance of enacting a CBI parity bill to grant trade preferences for apparel produced in the Caribbean region from U.S. origin textiles. Both NAFTA and the CBI allow an apparel product made from U.S. fabric to be cut and sewn within those countries. The result is an apparel product that is competitively priced with Asian-sourced apparel imports and is far more likely to contain U.S. cotton. This enhanced competitiveness is crucial for the U.S. cotton industry, particularly with respect to the increased textile imports we expect once China accedes to the WTO.

The CBI bill is enacted, but implementation is not complete. As a result, we have not yet experienced significant increases in demand. We have urged the U.S. Customs Service to issue final regulations implementing the legislation as quickly as possible. Until the rules are finalized, it appears that growth in demand will be limited.

D. China

The U.S. and China reached a final agreement that should pave the way for China to accede to the World Trade Organization. The U.S. cotton industry has been neutral on the subject of Chinese accession to the WTO. While the agricultural portion of the U.S. / China agreement was favorable to the United States, the textile provisions of that agreement would introduce even more competition into the U.S. textile market. We were concerned that China would try to obtain developing country status under the WTO so it could claim special and differential treatment with respect to many trade obligations. In agriculture, special and differential treatment would allow China to support its domestic agricultural programs at higher levels than were anticipated at the conclusion of the U.S. / China agreement.

Developing country status would also allow China to be exempt from many other aspects of WTO requirements (in both agriculture and manufactured goods) as well as special treatment concerning export subsidies on manufactured goods.

Although the recently announced agreement does not commit China to fully conform to developed country disciplines, the compromise could have been much more troubling. It is our understanding that China agreed to a zero ($0.00) binding on domestic levels of support for agriculture and a *de minimis* support level of 8.5% on both product specific and non-specific support. This level will not be phased down. This amounts to about $500 million that could be available for cotton support annually.

We understand that China will not be given special treatment as a developing country for agricultural export subsidies and will not be able to relax its commitment to stop using them. We have also been told that China will not get the benefits of Article 6.2 of the URAA which exempts investment subsidies and agricultural input subsidies for low-income or resource-poor producers in developing countries from the domestic support reduction commitments. This was a potentially large loophole.

Finally, according to the Office of the U.S. Trade Representative, the agreement did not open any important loopholes for China with respect to export subsidies on manufactured products. They also stated that there were no changes with respect to the textile provisions.

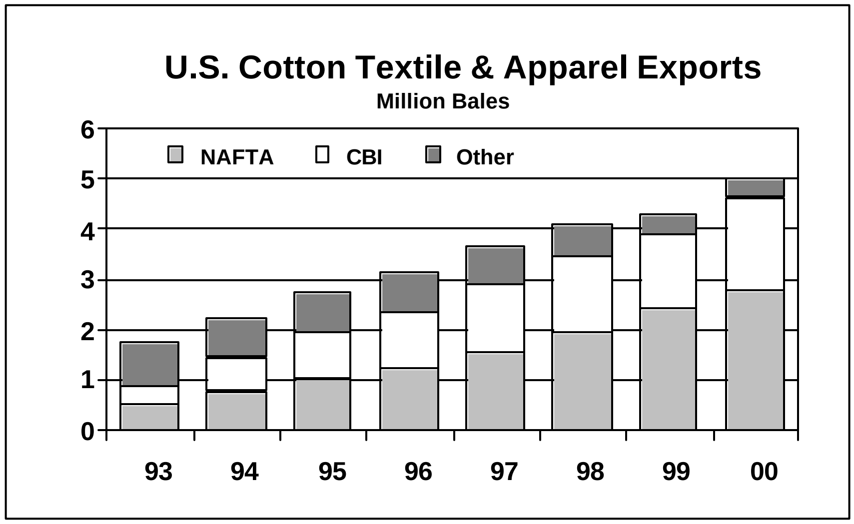
It was crucial that China not be allowed to claim special and differential treatment in the area of agriculture and textiles. China is very competitive in international markets with respect to cotton and textiles and should be made to conform to trade disciplines that are equivalent to those adhered to by the United States.

It remains crucial that China’s compliance with its commitments be closely monitored. China is the single largest cotton and textile producer in the world and our industry’s most significant customer and competitor. Failure to live up to its WTO agreements could have profound implications for our industry.

E. Regional Trade Arrangements

The National Cotton Council supports the concept of fast-track negotiating authority, provided that it contains provisions requiring consultation with Congress and the private sector and contains negotiating objectives that will encourage trade agreements that will benefit the U.S. cotton industry.

The U.S. cotton industry has supported several regional trading arrangements which offered innovative approaches to enhancing competitiveness. We are an ardent supporter of the North American Free Trade Agreement. The particular structural factors that are in place with respect to the cotton industries of Mexico and the United States ensured that NAFTA would enhance demand for U.S. cotton and U.S. textiles. The agreement has also strengthened the textile sector in Mexico.



We pursued a similar but even more innovative strategy with respect to trade preferences recently granted to the Caribbean Basin region and sub-Saharan Africa, which I referred to earlier.

The United States is currently engaged in free trade discussions with Israel, Chile, South America in general, Singapore and Australia. We have made overtures to many more countries and regions.

While the cotton industry supports expanded and liberalized trade, each of these agreements must be evaluated on its own merits. The cotton industry supports free trade arrangements that will benefit our industry. We have some concerns about arrangements that further open our markets to some of our most difficult competitors. These concerns are particularly evident concerning textiles, where all quota restrictions are due to be phased out in 4 years. Should the United States complement that quota phase-out with the elimination of import duties from some of the world's most prolific textile producing countries, the U.S. textile industry will not be able to recover.

Our industry generally sees opportunity in liberalized trade in this hemisphere. But I caution that a Free Trade Agreement for the Americas is not without risk to the U.S. cotton and textile sectors.

We see less opportunity in free trade arrangements with textile producing countries in Asia, and we are opposed to such an arrangement with Singapore.

Free Trade Area of the Americas

The FTAA negotiation coincides with a period of serious economic distress in the U.S. fiber, textile and apparel sectors. The FTAA will have a much broader and more unpredictable impact on these industries than the North American Free Trade Agreement (NAFTA). It is important, therefore, for the United States to consider carefully and separately the impact of an FTAA on the U.S. textile and apparel sectors.

As I indicated earlier, despite the strength of the overall national economy, over 319,000 U.S. textile and apparel workers lost their jobs during 1997 through 2000. This severe trend has continued during the first quarter of 2001, as an additional 28,000 employees have been laid-off.

Consequently, it is critical that any further liberalization of the U.S. textile and apparel market through an FTAA be well-measured, taking into account the severe conditions facing this important industry and the differences between the NAFTA market and the market that will exist under an FTAA.

Important issues to these industries include rules-of-origin, non-tariff and other trade barriers, tariff phase-out, safeguard provisions, effective enforcement of existing rules under NAFTA, and effective implementation of trade preferences enacted for the Caribbean and sub-Saharan Africa. The complexity and scope of these issues make it imperative that a separate negotiating group specifically devoted to textile and apparel issues be developed within the overall FTAA negotiating framework.

A separate negotiating group can help ensure this agreement improves rather than further undermines conditions facing the U.S. textile and apparel industries and its 1.2 million workers.

F. Foreign Agricultural Service

USDA's Foreign Agricultural Service plays a key role in building and safeguarding U.S. exports of agricultural products. FAS is the eyes and ears for the producer and industry at large in overseas markets. In that capacity, the cotton industry relies heavily on FAS to collect and release timely and unbiased supply and demand information to the public, and to actively work on contacts and events that will help boost U.S. exports.

FAS personnel also play an important role in collecting information on overseas agricultural and trade policy issues that relate to policy development in this country. FAS personnel at home and overseas work in a collaborative fashion with the U.S. agricultural producers, agri-businesses, and export market development cooperators to bring technical, information, plant and animal health protection, and trade servicing resources to bear on trade challenges and opportunities globally.

The U.S. cotton industry supports providing adequate funding for FAS programs and for FAS personnel. In today's world of instantaneous need for information, genetic diversity and phytosanitary concerns, and trade policy and trade development needs, FAS's services are more needed than ever.

G. WTO Negotiations

According to the International Cotton Advisory Committee, trade flows in cotton continue to be indirectly distorted through the use of production subsidies. In MY1986, an estimated 69% of global production received income and/or price supports from governments. By MY1997, only 50% of global production was receiving these payments. However, because prices declined throughout the latter half of the 1990s, production subsidies began increasing once again. In MY1998, 53% of world production was subject to income- and/or price-support programs, led by China, the US, Greece, Turkey, and Spain.

The following table shows that payments by the Chinese Government to local cotton farmers amounted to more than half of total production subsidies worldwide in 1998. Payments were given in the form of procurement prices which overpaid farmers for the costs of ginning, packaging, storage, and transporting their cotton.

	Avg subsidies (¢ per lb produced)		**Subsidies to cotton production ($mil)**	
Country	**1997**	**1998**	**1997**	**1998**
China	20	27	$2,013	$2,648
US	7	14	597	953
Greece	86	74	659	660
Egypt	39	13	290	66
Brazil	4	5	29	49
Mexico	3	3	13	15
Total	17	22	$3,811	$4,814

Sources: ICAC, FAS/USDA, US International Trade Commission

The cotton industry, therefore, supports the efforts of our government to further liberalize market access and trading rules within the WTO and has outlined a set of priorities for the ongoing negotiations. The Council supports --

- securing timely and effective access to foreign markets for U.S. grown raw cotton and U.S. manufactured textiles;
- stopping the erection of non-tariff trade barriers against agricultural biotechnology products;
- improving disciplines applicable to the state trading of agricultural commodities;
- maintaining the provisions of the WTO Agreement on Textiles and Clothing and not significantly reducing tariffs on textile imports into the United States;
- improving rules restricting the use of export subsidies, including rules with respect to downstream subsidization of agricultural products, use of export taxes to reduce prices of processed products, content requirements for exports and exemptions from taxes for exported products;
- reducing trade distorting agricultural subsidies worldwide, but preserving important US domestic and export programs as long as necessary to compete with the treasuries of our competitors;
- maintaining strong US rules to protect against unfair trade practices;
- maintaining the ability of the United States to enter into beneficial regional trading arrangements; and
- improving the ability of the WTO to address managed and/or manipulated exchange rates.

The Council also urges our negotiators to work for rules that will not allow countries that are competitive in world markets with respect to cotton, cottonseed and their products and textiles to take undue advantage of WTO provisions providing special and differential treatment to developing countries.

Today's hearing is primarily about the agricultural trade title in any new farm bill, so I will not dwell on the WTO negotiations. I do want to point out, however, that the Uruguay Round ceilings on domestic spending for commodity programs were so high that many in the U.S. thought we would never approach them. Recent experience is showing otherwise.

In any new agreement, and as we work to structure new farm policy, we should be mindful of the caps on spending contained in the WTO. The recent decision by the Department of Agriculture to categorize supplemental market loss assistance payments as amber box complicates our efforts to develop effective long term farm policy.

Finally, even though other sectoral negotiations are not moving very much, we remain concerned about attempts to speed up the phase-out of textile quotas. Those quotas are scheduled to end in 2005. The textile industry is already facing very stiff competition from imports. We should not injure this industry further.

That concludes my testimony. I would be happy to answer any questions.